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STATEMENT

[to the Legislature]

BY

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TREASURER OF ONTARIO

AND

MINISTER OF ECONOMICS

ON

DEALING WITH THE RECESSION AND PREPARING FOR RECOVERY

DECEMBER 4, 1990

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I. INTRODUCTION

Mr. Speaker, I am honored to deliver to this House the first major economic statement of the newly-elected Government led by Premier Bob Rae.

This is my first opportunity to provide a formal report to the Legislature since taking on my responsibilities as Ontario's Treasurer. I wish to assure the Members that I intend to keep the Legislature informed regularly about economic conditions and the fiscal position of the Government.

I would have been happier if the economic outlook today were brighter. It will come as no surprise to the people of Ontario to hear that there is a recession in this province. In fact, working people and businesses were aware of the downturn long before the economists and the politicians started making it official.

This is not a message of doom and gloom, however. The overall fiscal position of the Government of Ontario is solid. The economy of this province is one of the richest and most advanced in the world, and our workforce is one of the most highly skilled.

This Government will not sit back and wait for economic forces to take their course. We believe that there are important steps that we can take to stimulate job creation, to alleviate hardship among the most disadvantaged in our society and to ensure that the engine of economic growth is primed for an early recovery.

We inherited a recession and a deficit, Mr. Speaker, but we did not inherit the policy paralysis that often accompanies economic hard times.

We do not believe that, as a Government, we can spend our way out of this recession. There are too many external factors beyond our control – such as the economic performance and the conduct of monetary policies in the United States, Europe and Japan, and the continued unrest in the Middle East.

To say nothing of the high-interest rate, high-dollar policies of our own Canadian government.

But what we can do, we will. What we can do is pursue, through our economic initiatives, some of the broad policy goals that are central to the philosophy of this New Democratic Government.

These goals include: introducing greater fairness into our institutions and practices; providing better protection for those least able to protect themselves; opening up the process of public policy development; and planning an economically and environmentally sustainable future.

Partnerships

In pursuing these goals, we are determined to build new partnerships. In the economic arena, it is important to note that we are firmly committed to working with key groups, such as labor, business, other levels of government, and community organizations, in developing a common agenda.

This agenda must support economic recovery while promoting positive and creative labor adjustment policies and industrial strategies.

We need to work together. These are complex economic times. Economies around the world are undergoing fundamental structural change because of new trade alliances, increased competition and new technologies. In Europe, the political map is being redrawn.

In Canada, there is a feeling that we have lost our collective sense of community. The Government of Ontario wants to help build a national recovery agenda. Once again, we are asking the Prime Minister to bring together the First Ministers of this nation to respond to the current economic challenges.

We also urge the Government of Canada to join us in supporting recovery in Ontario by supplementing our job creation initiatives.

II. THE ECONOMY

Current Conditions

Mr. Speaker, recent numbers have shown that the Ontario economy actually entered into a recession in April of this year. Employment generally in the province has declined by 66,000 since February. The number of unemployed workers has risen by more than one-third since then, and the unemployment rate has jumped to more than seven per cent. Job losses have been most marked in the goods-producing sectors, especially in manufacturing where employment has fallen by 77,000 over the past 12 months. Bankruptcies so far this year are up 73 per cent from last year's level.

The downturn reflects the impacts of federal high-interest rate and high-dollar policies. The Bank of Canada has pursued an extremely tight monetary policy in an effort to slow growth and eliminate inflationary pressures. The results have been record-high levels of real interest rates, unprecedented spreads between Canadian and U.S. interest rates and an appreciation of the dollar to a 12-year high of more than 88 cents U.S. earlier this year.

These policies have undermined the ability of Canadian industry to compete internationally and have produced sharp declines in business investment and in key sectors of the Ontario economy, such as manufacturing, construction and housing.

Outlook

Declines in real output and employment are expected to continue well into 1991. We expect real growth of only one-half per cent in Ontario next year. For the second year in a row, there will be no net job growth. Employment in the construction sector will continue to fall as major projects are completed and few new projects are started. And the manufacturing sector will continue to be affected adversely by the recession and the Free Trade Agreement. The unemployment rate is expected to average 7.3 per cent.

The planned introduction of the federal Goods and Services Tax on January 1, 1991 will extend and exacerbate the downturn. We estimate that CPI inflation would remain relatively stable in 1991, at just below this year's level of 4.9 per cent, in the absence of the GST. However, with the new tax, we estimate inflation in 1991 could reach 6.1 per cent.

Despite substantial uncertainties surrounding the economic outlook, we hope that the economy can begin its recovery by mid-1991. However, the recovery is not expected to be as strong as the one following the 1981-82 recession, as the combined effects of the GST, high real interest rates and increasing global competition continue to restrain economic growth.

The timing and the pace of the eventual recovery will depend critically on events external to the provincial economy, including U.S. economic performance, developments in Europe and Japan especially as they affect world interest rates, the course of oil prices and federal interest rate and exchange rate policies.

The international environment is more precarious than it has been for some time. Even in the absence of war, uncertainty over developments in the Middle East continues to undermine the confidence of consumers and investors in both Canada and the United States. Any further erosion of confidence will make it more difficult for the economy to recover in the latter half of 1991.

However, a negotiated settlement in the Middle East and an easing of tension could reduce uncertainty, boost confidence, lower oil prices, and speed up the eventual economic recovery.

Mr. Speaker, the prospects ahead are uncertain at best. Based on current indicators, we are projecting slow growth, rising unemployment and rising inflation due to the GST and are hoping for the beginnings of a modest recovery at mid-year. Further details on Ontario's economic outlook are presented in a separate staff paper which has been distributed to Members with this statement.

III. CREATING JOBS AND RENEWING ONTARIO'S INFRASTRUCTURE

As I have mentioned, a return to strong and sustained economic growth will depend to a large degree on improved economic conditions beyond our borders. However, we can take measures to ensure that we are fully ready to benefit from and participate in economic recovery. In addition, we can alleviate some of the hardships of the recession by introducing immediate actions to create jobs.

There is a considerable need for the renewal of our stock of social capital: our schools, housing, roads and bridges, universities and colleges, and our water and sewage facilities. As well, many of our public buildings and infrastructure need to be expanded, upgraded, made more energy efficient, or made more accessible for the elderly and for persons with disabilities.

As we find ourselves in a recession, with major weakness in the construction sector, now is the time to undertake the renewal of our capital stock. As announced in the Throne Speech, the Government is giving the go-ahead to a significant renewal of public infrastructure with a commitment from the Province of \$700 million.

This short-term Capital Projects Initiative is expected to generate the equivalent of approximately 14,000 full-year jobs. However, by the very nature of the program, a much larger number of people will benefit through employment opportunities for periods of less than one year.

Our school boards and municipalities will be important partners in this initiative. In consultation with all ministries, a large inventory of short-term capital projects has been developed. Many of the projects in the inventory have been requested in the past by local governments and school boards but were not undertaken because Provincial funding was not available. Today's commitment will allow much of this backlog to go ahead. As a result of this provincial-local partnership, it is expected that our special allocation will create up to \$1 billion in short-term capital projects. All of these projects will begin to create jobs within six months, with completion before the end of the next fiscal year. Many projects will begin to create jobs almost immediately.

Mr. Speaker, the employment impact of this major initiative will be felt at the very time when the economy most needs the stimulus. It will create modest growth in an economy that might otherwise be stalled at no-growth. And while it is forecast to bring the unemployment rate down by only 0.2 per cent, it will make a significant difference in the lives of many thousands of Ontario's workers, their families and their communities. That is an impact that doesn't show up in macro-economic statistics. But it is real and it is important.

The infrastructure renewal program will have important longer-term benefits. It will prolong the life of our public capital stock; it will avoid more costly reconstruction requirements in future; and it will, in many cases, reduce future operating costs.

The current inventory consists of almost 3,000 projects throughout the province. These projects represent the full range of public activities and involve significant priority areas, such as the environment; roads; rehabilitation of water and sewage facilities; public and non-profit housing; community and educational facilities; retrofitting for access for disabled persons; improved fire safety; greater energy efficiency; and improvements to waste sites, water courses, and forest management activities.

We will give priority to projects in communities and regions experiencing serious economic problems. Special efforts will be made to make job opportunities or apprenticeship positions available to all parts of the community, particularly women and natives.

To begin to create jobs immediately, \$41 million has been approved for projects that can be started very soon. These projects, which are the direct responsibility of Provincial ministries, can be undertaken in spite of winter conditions and do not depend on other partners for activation.

Included in these immediate actions are:

- improvements to access for disabled persons and seniors to community facilities;
- electrical generating facilities in several native communities;
- upgrading waste disposal sites on Crown lands;
- enhancing tourism attractions at such sites as Upper Canada Village and Huronia Historical Parks.

We will finalize the allocation of the Province's \$700 million dollar commitment in the near future. Further announcements will take place as soon as final decisions have been made.

IV. TAX INITIATIVES

In addition to the direct spending I have already outlined, the Government will undertake a number of tax-based initiatives.

The federal government's GST proposals could not have come at a worse time. It is expected that the GST will reduce consumers' 1991 real disposable incomes by at least \$4 billion nationally. This blow to consumers' incomes can be expected to reinforce the decline in consumer spending already set in motion by high interest rates, declining employment and sagging consumer confidence.

As I announced on October 11, this Government will not tax the GST. Amendments to the Retail Sales Tax Act were tabled on November 20 by my colleague, the Minister of Revenue, to ensure that if the federal government's proposed GST does, in fact, become a reality, Ontario's sales tax will not be piggy-backed on it. The Government also introduced in that Bill a series of administrative adjustments to its retail sales tax policy that will only take effect if the GST is introduced.

Our decision not to tax the GST will save Ontario consumers an estimated \$70 million in this fiscal year. In 1991-92, this action provides \$500 million in savings to Ontario consumers.

The Government will introduce legislation to enrich the Ontario Tax Reduction for low-income Ontarians. This action, proposed originally by the previous Government, cuts personal income taxes for low-income families with children and disabled dependents by an estimated \$44 million this fiscal year. Making further improvements to the tax system's treatment of lower-income Ontarians will be an area for early action by this Government.

Providing a stable climate for business planning and investment is also an important objective in good times or bad. A number of corporate tax measures have created uncertainty because proposed legislation had not been passed prior to the election. Changes announced by the previous Government, some dating back to the 1988 Ontario Budget, have served as the basis for business decisions and tax returns. I do not believe it would be fair or appropriate to change tax rules retroactively.

The Government, therefore, has decided to proceed with the outstanding legislation, including the R&D Super Allowance, the Ontario Current Cost Adjustment (or OCCA) and the enrichment in the OCCA rate to 30 percent.

The OCCA will provide additional support for investment in manufacturing and pollution control machinery and equipment by the manufacturing sector – the sector hardest hit by the recession. While I believe that the OCCA has a useful role to play in stimulating investment during the recession, it is not clear that it provides the most cost-effective or strategic incentives necessary for our long-term economic well-being.

Consistent with our goal of stimulating the economy in 1991, the OCCA enrichment will be available for new manufacturing machinery and equipment purchased between January 1, 1991 and January 1, 1992. In keeping with my intention of reducing uncertainty through open planning, I am announcing today that the Government intends to "sunset" the OCCA on new manufacturing machinery and equipment. However, given the continuing need to ensure that new production processes are adopted to reduce pollution, the OCCA for pollution control equipment will stay in place indefinitely.

The OCCA will provide an estimated \$160 million in tax-based support for business investments in manufacturing and pollution control equipment in Ontario.

In total, these tax changes will deliver \$700 million in tax support to Ontario's people and businesses in 1991. We estimate that this support will add 0.2 percentage points to the 1991 provincial real growth rate and preserve or create up to 8,000 Ontario jobs.

V. FISCAL OUTLOOK

Current Year

I would now like to provide an interim update on the Province's finances for the current fiscal year. As the Members know, on October 11, I disclosed that the \$23 million surplus projected by the previous Government had deteriorated to a projected deficit of \$2.5 billion. This sharp turnaround reflected both the impact of the recession on Provincial spending and revenue, and a number of significant obligations that had not been included in the Estimates tabled by the previous Government.

In respect of revenues for the current fiscal year, it appears that federal transfers of Ontario personal income tax will be higher than expected. However, trends in corporate and retail sales tax revenues may offset much of this gain. On the expenditure side, the caseload of social assistance recipients is expected to exceed our recent estimates at a cost of a further \$150 million this year. In addition, part of the cost of new initiatives announced today will affect spending this year.

In spite of the continuing impact of recessionary pressures, the Government expects to hold the deficit to within the projected \$2.5 billion.

Mr. Speaker, these are volatile and uncertain economic times. I will be providing Members with a more detailed breakdown of the current-year fiscal position in the quarterly Ontario Finances report in January, when I expect to have firmer figures.

Fiscal 1991-92

Our projected fiscal position for 1991-92 is difficult to predict in the current economic climate. However, we will still be dealing with the significant impact of the recession on revenues and expenditures.

Revenues will suffer from the combined effects of economic slowdown, the decision not to levy the Retail Sales Tax on the GST, and the federal decision to cap Canada Assistance Plan and Established Programs Financing transfers. This last item alone will cost the Province a further \$940 million in reduced revenue in 1991-92.

On the expenditure side, we face strong public demands and rising costs at a time when anti-recessionary efforts must also be put in the forefront. Funding should and will be set aside next year to undertake needed improvements and reforms as outlined in the recent Throne Speech. But, in developing our budget for next spring, we also must take into account the size of the deficit. I remain acutely aware of the difficulty of increasing revenue during a recession, yet I cannot forget the urgent social and economic agenda facing the Province. I can assure the Members of this House that my deliberations concerning the budget will balance these competing pressures.

Major Transfers

Mr. Speaker, I realize that our transfer partners are anxious to hear about their funding for the coming year. The practice in Ontario has been to announce in November or early December the amount of funding available in the upcoming fiscal year for transfer partners such as hospitals, schools and municipalities.

With the change in government, our funding allocations process has been somewhat delayed. To allow my colleagues and myself sufficient time to consider the funding requirements of our major transfer partners, we intend to make our announcements on funding levels early in the new year.

I realize that in some cases this may delay budget planning by the boards, councils and institutions affected. However, once funding levels are established, we will expedite the process of informing municipalities, school boards, hospitals, universities and colleges of their specific grants.

An Open Process

Looking beyond the 1991 Ontario Budget, I plan to introduce a more open, policy-driven process to review the extent to which the budget, with its taxation and expenditure priorities, reflects the objectives of the Government.

I intend to examine the rationales for budget secrecy and consider innovative ways to expose the tradeoffs inherent in the budget. It is also time to consider moving toward multi-year budgeting. In addition, we plan to look at alternative ways of reporting the Province's capital spending that will more clearly reflect the long-term benefits to the economy of those investments.

All of these initiatives should help to improve the budget process in Ontario.

Establishing the Fair Tax Commission is the first of many steps aimed at tapping Ontario's diverse and knowledgeable constituencies for their insights and advice. I will provide a detailed report on the establishment of the Fair Tax Commission in the near future.

VI. CONCLUSION

Mr. Speaker, as I noted at the outset, we are in a recession of uncertain duration. International events and unduly restrictive federal monetary policy are adding significant risks to the economic outlook. I sincerely hope the federal government will respond positively to Premier Rae's suggestion for a federal-provincial meeting on the economy and will join us in responding to the recession. Governments in Canada have to make cooperative and concerted efforts in dealing with the recession and preparing for recovery.

The Government sees a role for all parts of our society in successfully overcoming the current recession and in laying the foundations for a strong recovery and a more secure, resilient economy. It is our firm intention to develop close working relationships with all key groups in the community. I will be conferring closely with my Cabinet colleagues and Members of this House to establish the necessary framework and forums for government, labor, business, and our many diverse communities to join together in addressing the challenges of economic adjustment and restructuring.

Mr. Speaker, the measures I have outlined today are both progressive and responsible. In total, they provide \$1.4 billion to create jobs, stimulate investment, and offset some of the negative impact of the proposed GST. Taken together, I expect that these measures will increase the Provincial Gross Domestic Product by 0.6 per cent and create more than 20,000 jobs.

Thank you, Mr. Speaker.

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